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C O N F I D E N T I A L SECTION 01 OF 04 NEW DELHI 000662

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TAGS: [PGOV](#) [PINR](#) [PREL](#) [PHUM](#) [ECON](#) [SOCI](#) [KDEM](#) [IN](#)

SUBJECT: BELLWETHER PROJECT: INDIA RISING, PUNJAB STRUGGLING

REF: NEW DELHI 006868

Classified By: Political Counselor Ted Osius for reasons 1.4 (B,D)

¶1. (C) Summary: For decades, Punjab has struggled with corruption and bad political leadership. Despite its reputation as the breadbasket of India, Punjab's agriculture economy is failing and the common Punjabi feels left out of India's economic boom. Unemployment is widespread, inflation is rising, and the government-run public school and health care system is falling apart. Punjab has resources in its diaspora and its land. It must learn to utilize them to compete with other states to tap into the increasing investment flowing into India from around the world. End summary.

¶2. (U) This is one of a series of cables in the bellwether project launched by New Delhi's POL and ECON sections in September 2006 to take the economic and political temperature of key states over the next year. Since Punjab is facing a state election in February 2007, PolOffs and POL FSN decided to revisit the state. During three days of meetings, we met with members of the Congress party, the opposition Shiromani Akali Dal (SAD or Akali), Bharatiya Janata Party (BJP), senior bureaucrats, university administrators, journalists, businessmen, and human rights activists.

Punjab Economy Has Its Bright Spots

13. (C) Many interlocutors noted that Punjab in several ways is better off than most of India, enjoying one of the highest per capita incomes in the country. H. K. Dua, Editor-in-Chief of the Tribune, a well-respected local paper, asserted that Punjabis own the highest number of Mercedes in India. Several people noted that the state's retail, real estate, and construction sectors are booming. A group of industrialists maintained that Punjab has one of the best living standards in India, with relatively little crime and minimal labor trouble. They attributed Punjab's economic growth to India's current boom, rather than its own efforts. Mr. Sukhpal Khaira, a Congress party MLA candidate, judged that remittances from its many non-resident Indians (NRIs) are the primary cause of Punjab's boom.

The Green Revolution Is Wilting

14. (SBU) Many interlocutors point out that farmers--Punjab's traditional economic backbone--are now struggling to make a living. Punjab's beautiful green fields of wheat, rice, and sugar cane are visually bountiful, but it has become more difficult over the years for Punjab's agricultural sector to retain its position as first in the nation. Farmers are struggling to make ends meet with lower yields, as their landholdings are split into smaller pieces with each generation. The central government controls the market for agricultural inputs as well as crops, and many interlocutors claimed that prices for fertilizer, water, and electricity, the farmers' lifeblood, have continued to rise, while wheat prices stagnate. With shrinking profits

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resulting from subsistence size plots, farmers are defaulting and losing everything. Farmer suicides are on the increase as they borrow from moneylenders who charge exorbitant rates of interest, with little understanding of the repercussions of default.

Longing For Infrastructure and Investment

15. (C) Many interlocutors agreed that Punjab must diversify its economy, and that improved infrastructure is key to attracting outside investors. Mr. Vijay Chopra, Managing Editor of several local vernacular newspapers, claimed the poor make up 30-40% of the population in Punjab. Mr. Dua claimed that there are currently 3.5 million unemployed young men residing in the state, and that most are uneducated. Our industrialist contacts were swift to point out that Punjab is a good state for industry because of its educated labor force and strong work ethic, but needs better roads, a better airport, better access to electricity, and better sewage systems. Currently, the state has no large-scale industry. Many interlocutors pointed out that since 1997, not one megawatt of generational capacity has been added to Punjab's power grid. This shocking lack of capacity has further stymied growth in the industrial manufacturing sector.

THE DIASPORA: A Double-Edged Sword

16. (SBU) Poloffs repeatedly heard our interlocutors describe Punjabis as adventurous, hard-working, and ready to move to new countries, especially the rural populations who see few economic and educational opportunities at home. The plethora of Western Union stores and travel agencies that have cropped up in Punjab attest to and sustain the non-resident Indian (NRI) phenomenon in the state. According to Vinayak, the Chandigarh bureau chief for India Today, Punjab has India's most globally dispersed community, with approximately two million Punjabis living outside of India.

17. (C) Vinayak also noted that Punjab has the least amount of foreign direct investment in India, at 0.7%. Instead of

bringing FDI into the state, NRIs send back remittances. The influx of money then drives up prices, making it more difficult for those not receiving remittances to survive. Our industrialist interlocutors attributed high real estate prices and the economic health of certain villages to NRIs, as they build houses for themselves and their families. Dua described NRI investment in Punjab as low-level and "sentimental," giving some money to a school or a hospital in their village, but not much beyond that, to generate jobs.

Migrants and Minorities

¶18. (C) The movement of so many Punjabis overseas has left a vacuum that is being filled primarily by migrants from Bihar and Uttar Pradesh. Kumar noted there are 2.7 million such migrant laborers, many of whom are uneducated and unemployed. Chopra said that mechanized family farms hire laborers from Bihar, Uttar Pradesh, and Himachal Pradesh. If Uttar Pradesh and Bihar prosper and the migrant

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workers return to their home states, Punjabis would no longer be able to run their farms.

¶19. (C) In response to the recently released Sachar report, PolOffs enquired into the status of Punjab's Muslim population and how the report would affect them. Kumar said that Muslims are 2.7% of the population. Sikhs are 40-53%. Hindus constitute the rest. Our interlocutors described the Muslim population as generally living in pockets dispersed throughout the state, but mostly in urban areas. Muslims fill low-wage jobs, such as artisans, rickshaw pullers, plumbers, and landless farm workers. While many interlocutors claimed that Punjab was an open society, that Muslims were well-integrated, and there was no communal tension, a few seemed concerned that many of the migrants moving into Punjab were Muslim. One cited Muslims as forming a potential vote bank; another asserted that there was a movement afoot to reclaim mosques converted into gurdwaras (Sikh temples) after most Muslims moved to Pakistan during Partition.

Suffering From Lack of Good Schools, Hospitals

¶10. (C) Another recurring theme was the need for improved government-run schools and hospitals in Punjab's villages. Suresh Kumar, Principal Secretary to Chief Minister Amarinder Singh, said that there are currently two million children in the state's government-run schools. Vinayak claimed that the schools are in abysmal shape. Chopra claimed that government school teachers send their own children to private schools. Many pointed out that public hospitals are also in bad shape and our industrialist contacts said the private ones are not very good either. Mr. Khaira, who is campaigning to represent several villages in the legislative assembly, asserted that those who can are moving to the towns to receive better services.

Pakistan: Bringer of Good and Ill

¶11. (C) Many individuals expressed hope that the India/Pakistan peace process would progress to the point where the border could be reopened between the two Punjabs. Due to East Punjab's landlocked position, West Punjab is seen as a natural trading partner for its manufacturing and agricultural sectors, just as it was sixty years ago. Many see a return to open trade as beneficial to both Pakistani and Indian Punjab. Others, however, see Pakistan as a direct menace to Punjab because of alleged ISI support for the Sikh separatist movement. Our police contacts claimed that after Operation Bluestar in 1984, many separatists moved to Pakistan, where the ISI allegedly recruited them, trained

them, and sent them back to India as terrorists. Chopra also claimed that Pakistan continues to support separatists, although Punjabis have lost interest in insurgency.

Corruption An Obstacle To Growth

¶12. (C) A legacy of corruption permeates Punjab. Most interlocutors claimed both the Akali and Congress are

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profiting heavily from the culture of corruption. Journalist ¶T. S. Kohli described the two parties as "like mafias." He asserted that Chief Minister Amarinder Singh has formed a clique with whom he makes unscrupulous land deals and dodges taxes. Kohli claimed that politicians are involved in drug smuggling from Rajasthan and Madhya Pradesh. He also claimed that government officials get 50% commissions from contractors hired to build state roads. A human rights lawyer asserted that some politicians are involved in trafficking in persons. When PolOff sought confirmation, there was an embarrassed pause, and then he said, "Yes, I've told you the truth."

Comment: All It Needs Is Good Leadership

¶13. (C) COMMENT: Punjab is a beautiful state with a great deal of untapped economic potential. Punjabis have benefited from abandoning a separatist movement that cost over 25,000 lives (over 16,000 of those killed were Sikh) and reintegrating into India. Punjab can no longer afford, however, to rest on its agricultural sector's laurels and miss further opportunities to diversify its economy and attract outside investors. Punjabis must be proactive about luring outside investment. PolOff also was struck by the fact that no one in Punjab is talking about creating farming cooperatives, not even among family members. No one is benefiting from economies of scale.

¶14. (C) Unfortunately, Punjab has not seen real leadership from its past elected officials. Many Punjabis calculate New Delhi gives short shrift to Punjab because it sees the border state as a prime target for Pakistan in the eventuality of a war. Infrastructure projects only seem to get attention in the runup to an election. No one in power has engaged in long-term planning. The willingness of many Punjabis to move overseas in search of a better life removes much of the pressure for change from the state government. Unfortunately, the Punjabis who cannot afford to move abroad are stuck with substandard social services.
END COMMENT
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